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ABSTRACT

The market-oriented countries of Pacific Asia have been contributing to economic growth in the industrialized West. The market developing countries of East Asia have averaged economic growth of 7.5 percent a year over the last 20 years. The most prominent feature of their economic development has been rapid growth in manufactured exports, expanded agricultural production, and investment. Most of the countries rely heavily on market forces; their governments practice only selective economic intervention focusing on macroeconomic management and strong policy direction. With the global recession of the past few years, economic growth in these countries has slowed to 3 percent annually. In the People's Republic of China, reforms such as economic decentralization, private incentives, and increased foreign trade spurred China's economic growth to 6 percent a year for the period 1978-1983. Three issues are fundamental to continued development in Asia: free trade, the reduction of real interest rates by industrialized countries, and increased financial support for international development institutions such as the World Bank. Two lessons emerge from the development experience in Pacific Asia: the effectiveness of economic policy and the practical, human importance of the global economy. (LP)

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THE PACIFIC ASIAN COUNTRIES

A FORCE FOR GROWTH IN THE GLOBAL ECONOMY

Address

As Prepared for Delivery

By

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and

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Los Angeles, California

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Thank you, Mr. Raabe. It's always great to be in California again, and I have wanted to speak here at the Los Angeles World Affairs Council for some time. My topic today is the remarkable progress of developing countries in the Asian Pacific -- progress which is continuing despite the worldwide economic problems of recent years.

As a commercial banker based in California, I learned to respect the dynamism and commercial importance of Pacific Asia. At The World Bank during the last few difficult years for the global economy, my respect has deepened.

The economic output of the Pacific region as a whole (including Japan, Australia and New Zealand as well as China and the market developing countries) is now equivalent to more than two-thirds the output of the U.S. economy. That's up from one-third only 20 years ago.

The global recession has left nearly all the world's developing countries with acute economic problems. But (except for the violence-torn and poverty-ridden countries of Indo-China) the developing countries of Pacific Asia are coping relatively well. Other developing countries -- and developed countries too -- can learn from the strong economic performance of these up-and-coming countries of Pacific Asia.

In my remarks today, I will first focus on the market-oriented developing economies of the region -- reasons for their rapid progress and the adjustments they have made in recent years. Then, let me turn to the People's Republic of China, especially its current program of reform. Finally, I want to explain how these countries contribute to economic growth in the industrialized West and urge several actions that will encourage their continued progress.

* * *

The market developing countries of East Asia have averaged economic growth of 7.5 percent a year over the last 20 years. Progress in reducing poverty has not been easy or even, but the proportion of people in absolute poverty has been substantially reduced. Fewer children are dying, and people are living longer. Nearly all children go to primary school now. Population growth still poses a major challenge, as it does throughout the Third World, but population growth rates in the market developing countries of the Pacific have come down significantly.

There is tremendous diversity among these countries, and their progress has been due to many causes, including cultural and political factors. But certain common patterns of economic policy and performance have, clearly, been basic to rapid progress in all these countries.

The most prominent feature of their development has been rapid growth in manufactured exports. Korea has expanded its manufactured exports faster than any other country in the world, and the Philippines, Malaysia, and Thailand have expanded manufactured exports at rates of 20 to 30 percent a year. The vast opportunity of the global economy has stimulated rapid growth, and openness to the rest of the world has also made these economies more efficient, flexible, and innovative. The principal policy foundations for their export success have been competitive exchange rates and low barriers to imports.

A second aspect of their success story is less widely appreciated: agricultural production has expanded faster in these countries than almost anywhere else in the world. Agricultural growth has been related to export growth, in that openness to the world economy has encouraged these countries to avoid price distortions, also in agriculture. And governments have furthered agricultural development directly through public investment in land settlement, irrigation, and research.

A third key area of notable economic performance, in addition to exports and agriculture, has been investment. Investment in these countries has been equivalent to more than a quarter of their income, with over four-fifths of investment coming from domestic saving. Governments have encouraged saving with positive real interest rates, they have provided a policy framework conducive to private investment, and they have also invested directly in their people through strong programs of public education.

The market developing countries of Pacific Asia have relied extensively on market forces. Price distortions have been relatively limited, and these countries have not depended heavily on state enterprises. However, it is not the absence of state intervention, but rather the selectivity and effectiveness of state intervention, which distinguishes these countries. Their governments have supported development with careful macroeconomic management, strong policy direction, and necessary public investments.

Many of these countries need to develop a broader base of political participation, and no one can predict the political future. But until now at least, governments in the region have been relatively stable and committed to development. This basic stability has allowed economic managers to change tactics quickly when mistakes became evident or in response to changes in the international economic environment. Such flexibility has been especially valuable during the worldwide economic turbulence of recent years.

Each of the two oil price increases, in 1973 and again in 1978-79, cost the oil-importing developing countries of East Asia between 3 and 6 percent of their national income. By comparison, each of these two shocks cost the industrial countries 2 percent of their national income.

The global recession of the last few years has also been exceptionally costly to the developing countries of Pacific Asia, because they are so open to the rest of the world. Malaysia, for example, suffered a drop of fully one-tenth in its national income between 1980 and 1982 because of lower export revenues. And for all these countries, high interest rates have increased the cost of servicing international debt.

Economic growth in the region has slowed down -- to an average of 3 percent a year for 1982 and 1983. Poverty is, for now, getting worse instead of better. But these countries are taking impressive steps to adjust and to reaccelerate their development.

In order to reduce energy imports, they have all raised domestic prices for energy, and they have also invested heavily in domestic sources of energy. Thailand, for example, is developing its off-shore reserves of natural gas (with assistance from The World Bank, and with important contributions by California companies). Starting at zero in 1980, natural gas now provides nearly a third of Thailand's electric power.

The global recession has not made these countries turn inward; on the contrary. Korea has embarked on a major program to reduce tariffs and to liberalize imports and foreign investment. The Philippines has also reduced tariffs substantially. And partly because of such tough decisions, the market developing countries of the Pacific have managed to expand their manufactured exports by 13 percent a year even between 1980 and 1983, a period of stagnation in world trade.

Most of these countries have also been relatively prompt in cutting back on public expenditure during the recession. Indonesia, for instance, has postponed major projects with high foreign-exchange costs -- while continuing with labor-intensive projects and with priority investments in agriculture, education, and health.

In general, policymakers in these countries need to make further efforts to share the costs and benefits of adjustment equitably. And adjustment has not been as timely and effective in some countries as in others. In the Philippines, for instance, policy response has not been quick enough recently. The Philippines maintained consumption and a growing investment program despite a sharp fall in export revenues, resorting too heavily to short-term foreign borrowing.

But even in the Philippines, economic management over the past ten years has been above average in comparison to developing countries around the world. The current adjustment efforts of the developing market countries of the Asian Pacific give them good prospects for renewed economic development and social progress in the years ahead.

* * *

Let me now turn to the People's Republic of China.

With a billion citizens, the size of China's economy exceeds the combined national income of all the rest of East Asia excluding Japan. But China remains a very poor country, with average per capita income of about $300 a year.

Like its capitalist neighbors, China has consistently given high priority to development. And despite policy oscillations, China's leadership has been relatively stable. But instead of pursuing efficiency and productivity, the hallmarks of development in the rest of East Asia, China has, until recently, based its development mainly on the massive mobilization of resources.

China achieved rapid growth in industry, despite virtually no growth in productivity, by assigning a large share of national income to industrial investment. And China also made great strides in reducing poverty. As I saw for myself during a visit last year, serious poverty persists in China, particularly in more backward rural areas. But poor people all have work and food security, and the great majority have access to schools for their children and to health and family planning services.

Toward the end of the 1970s, the Chinese authorities launched a far-reaching program of economic reform -- to improve efficiency and productivity. China has been decentralizing economic decision-making, relying more on private incentives, and opening itself to increased foreign commerce.

The effects of reform have been most striking in the countryside. The government has delegated more responsibility to lower-level institutions, and income is more directly linked to output. Over three-fourths of China's production teams have contracted out land to individual households. At the same time, the government has sharply increased agricultural prices. As a result of all these changes, agricultural production has grown at an extraordinary pace. Since 1978, rural incomes have gone up about 10 percent a year.

In the urban areas, state enterprises now retain more profit and have greater scope for decision-making. There is also more scope for business activity by cooperatives and individuals. The government is encouraging industry to use energy more efficiently, mainly by rationing.

China's relatively slight involvement in the global economy has insulated it from the global recession. But the Chinese authorities are convinced that the benefits of international trade, technology, and finance outweigh the risks of deeper involvement. In 1980, the People's Republic of China took its seat in the International Monetary Fund and The World Bank. Between 1978 and 1983, China doubled its exports and is now a keen customer for capital goods and technology.

Thanks to the reform program, China achieved economic growth of over 6 percent a year between 1978 and 1983. China has already reaped the fruits of correcting some of the most glaring inefficiencies of the past, so it may prove difficult to maintain the present pace of economic expansion. But all signs point to continued economic and social advance for China, now as an integral part of the global economy.

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The global economy, as we know it today, is, in some respects, a recent invention. The nations of the world established multilateral economic institutions, including The World Bank, after the Second World War. In the decades that followed, they liberalized and expanded international trade and capital flows in an unprecedented way, and international commerce stimulated productivity and efficiency worldwide. It is no coincidence that living standards improved dramatically almost everywhere, also for most of the world's poorest people, during the decades of increasing international interdependence.

The development of the global economy opened new opportunities for upward mobility among countries. The market-oriented countries of Pacific Asia have seized these opportunities, and China is just now making its entrance into the global economy. Upward mobility among countries may seem threatening to some people, but it makes the world economy more creative, more expansive, and, politically, more stable.

Newly industrializing countries in East Asia are now strong competitors in certain lines of manufacturing. As a result, consumers in Western Europe and North America get better value for money, and increased competition also stimulates established producers to raise their productivity. Some industries in the West have been hurt in the process, but the newly industrializing countries import more manufactured goods than they export. Their net effect on employment in the advanced industrial countries is positive.

Here in California, one-seventh of all manufacturing is for export. Manufactured exports account for one in every 20 jobs. And Pacific Asia is, without question, California's fastest growing export market.

Economic problems, as well as progress, now pass quickly from one nation to another. But even in bad times, the benefits of international interdependence exceed the costs. And we can reduce the problems, if nations learn to give more consideration to how their economic policies affect other nations.

The developing countries of Pacific Asia are doing their share to build the current recovery into a new period of sustained economic expansion worldwide. But their success will depend on complementary actions by the advanced industrial countries.

Let me highlight three issues.

First, trade. In part, the increasing outward orientation of the developing countries of Asia is an act of faith -- that the advanced industrial countries will maintain the momentum of economic recovery and resist protectionist pressures. If we disappoint them, it will be more difficult for them to maintain their outward orientation.

Second, interest rates. The developing countries of Pacific Asia have not, in general, borrowed excessively; they are responsible for less than a sixth of total developing-country debt. Yet debt has become a heavier burden for these countries too, despite their strong export performance. The World Bank's five major borrowers in the region have increased their export revenues fivefold over the last ten years, but their debt-service payments have grown even faster -- from 14 percent of exports in 1973 to 20 percent in 1983. This is partly because these countries are receiving less concessional assistance, but it is mainly due to high interest rates.

During the Seventies, real interest rates turned out to be low, or even negative, after inflation. But in 1981, '82, and '83, the developing countries paid an average interest rate of 11 percent on their outstanding debt to private lenders. Inflation had been successfully reduced, and the U.S. dollar appreciated. So the prices of internationally traded manufactured goods, measured in U.S. dollars, actually dropped 3.5 percent a year in 1981, '82, and '83. The bulk of international debt is denominated in U.S. dollars, so, in real terms, the developing countries have been paying an average interest rate of over 14 percent.

In the East Asian context, the burden of external debt is not, to any significant degree, due to imprudence or to the unproductive use of borrowed funds. Thus, the punishing effect of today's high interest rates on developing countries stands out in stark relief. Reducing real interest rates to a more normal level -- say 4 to 5 percent -- should be among the leading goals of economic policy in the dominant industrial countries. Reducing real interest rates will be difficult, but getting government deficits under control, especially in the United States, would surely help.

Finally, in addition to trade and interest rates, allow me to raise the issue of financial support for international institutions like The World Bank.

In the market developing countries of this region, our largest lending program in any one sector has been in agriculture, with a strong emphasis on rural poverty. The World Bank has also helped to formulate and strengthen population programs in Indonesia, the Philippines, Thailand, Malaysia, and Korea.

The World Bank has given increasing attention to the adjustments these countries need to make in response to shocks in the global economy. Their governments have, in general, been receptive to our policy advice, and we are supporting broad policy changes with what we call "structural adjustment loans." Over the last four years, the Bank's structural adjustment loans to these countries have totalled $1.4 billion.

In Pacific Asia as elsewhere, The World Bank helps to encourage and coordinate investment from other sources. Other development agencies and commercial investors often use World Bank analysis in making their own investment decisions. And nearly a third of our projects now include cofinancing. Thailand was one of the first countries to take advantage of our new techniques for cofinancing with commercial banks, and the resulting commercial-bank borrowing had a longer maturity than any other commercial borrowing Thailand undertook last year.

In China, The World Bank began its involvement, in 1980, with the most thorough study of the Chinese economy that any outside group had done since before 1949. The Bank is now participating in projects that advance economic reform in a wide variety of sectors: energy, agriculture, education, industry, ports, and railways. Our total lending to China should reach nearly $1 billion this fiscal year.

As the Chinese formulate their next five-year plan, they have asked us to mount a second major review of their economy. A large team of World Bank experts is in China right now collecting data and discussing reform issues, sector by sector, with the responsible Chinese officials.

About nine-tenths of the resources we provide to East Asia are loaned, long-term, at interest rates high enough to allow The World Bank to earn a profit. We raise the bulk of these funds by selling World Bank bonds in the international capital markets. Lending from The World Bank -- and from our sister institution, the Asian Development Bank -- adds an element of stability to the international borrowing of developing countries. And, most important, the multilateral banks are more effective than any other foreign investors, commercial or official, in encouraging sound investments and development policies in our borrowing member countries.

What The World Bank will need from the advanced industrial countries to support further increases in such lending is capital to help back our bonds. Only a small percentage of this capital needs to be paid in, so the cost to taxpayers is minimal.

The World Bank has an affiliate, the International Finance Corporation (IFC), which helps put together international deals between commercial enterprises in the developing countries and other countries. IFC can lend without government guarantees, and it can also take equity positions in companies. IFC is in the final stages of preparation for its first project in China. And in the market developing countries of the region, IFC plans to provide financial equity for venture capital companies.

The World Bank's second affiliate, the International Development Association (IDA), provides concessional assistance to the low-income developing countries -- that is, countries with incomes below about a dollar per person per day. IDA finances high pay-off investments and encourages sound economic policies in the low-income developing countries. But IDA depends on grant financing, mainly from the advanced industrial nations, and the donor nations have recently decided to substantially reduce IDA's level of funding for the next several years.

The only countries in Pacific Asia that qualify for IDA assistance are a few relatively small nations (like Laos and Papua New Guinea) and, of course, China. We are encouraging China to borrow more, from both The World Bank and commercial banks. But the Chinese are rightly reluctant to accumulate debt too rapidly, especially in view of the volatile debt situation of so many other countries. The advanced industrial countries have strong reasons -- commercial, political, and humanitarian reasons -- to assist China in reaching its development goals. But our continued inability to provide much IDA assistance is, unfortunately, likely to limit the potential role of The World Bank in China.

Adequate funding for The World Bank -- most immediately, for its concessional affiliate, IDA -- is important, along with the larger issues of trade and interest rates, for continued progress in the developing countries of Pacific Asia.

* * *

In conclusion, let me stress two simple, but powerful lessons that emerge from the development experience of Pacific Asia.

First, the effectiveness of economic policy. Steady commitment to development, coupled with flexibility, has paid off for these countries. By mobilizing resources for development and by increasing economic efficiency, they have substantially improved standards of living for themselves and their children.

And a second lesson, the practical importance -- the human importance -- of the global economy. The global economy has contributed to rapid economic growth and the reduction of poverty in these countries. And their economic dynamism, in turn, is a stimulus to economic improvement in the rest of the world.

At the end of the Second World War, with much of the world's productive capacity in ruins, the nations of the world, led by the most powerful nations, laid the foundations for the global economy. Now again, at a time of strain -- even fragility -- for the global economy, it is vital that our vision be long-term and global in scope.

Thank you very much.

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